
FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION ESTABLISHES PROSPECTIVE MITIGATION AND MONITORING PLAN FOR CALIFORNIA WHOLESALE ELECTRIC MARKETS

The Federal Energy Regulatory Commission today announced a plan designed to bring price relief to the dysfunctional California electric market, provide greater price certainty to buyers and sellers of electric power, and promote conservation while encouraging investment in generation and transmission.

The California plan, striking a balance between energy suppliers and consumers, provides for forward-looking price mitigation, ongoing market monitoring and development of demand reduction programs. Prices should be mitigated before they are charged, not after, be market-oriented and adopt market solutions, the Commission said. The plan will be in place for a period not to exceed one year.

Chairman Curt L. Hébert, Jr. said, "Today's order reflects bold and imaginative thinking by the Commission staff and my colleague, Commissioner Linda K. Breathitt. California consumers can rest assured that the Commission has been attentive to their problems, and has worked tirelessly to ensure that they receive necessary relief in a manner that does not compound current problems or undermine longer-term solutions."

The mitigation plan directs the California Independent System Operator (ISO) to file a regional transmission organization (RTO) proposal with the Commission by June 1, 2001. The Commission emphasized that the only real solution to the power supply problems affecting the western markets is to create a regional response. The mitigation plan will last one year, the Commission said, noting that California will have 4,000 to

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6,000 additional megawatts of generation on line by then and, in addition, the retail demand response mechanisms required by this order will be in effect.

In its comprehensive December 15, 2000 order addressing problems in the California wholesale markets, the Commission found that the market structures and rules for wholesale sales of electric power in California were seriously flawed and that these structures and rules, along with an imbalance of supply and demand in California, caused, and may continue to cause, unjust and unreasonable rates for short-term energy under certain conditions. The December order provided certain remedies for the California markets including elimination of the Power Exchange's (PX) mandatory buy-sell requirement, establishment of a benchmark price for wholesale bilateral contracts and establishment of penalties for undescheduling load.

Key elements of the mitigation and monitoring plan adopted today by the Commission will:

- increase the ISO's coordination and control of generation plant outages. The Commission will continue to monitor outages, and the ISO must continue to submit outage information to the Commission.
- require sellers with participating generator agreements (PGAs) to offer all their available power in real time. Since all generators need to participate in helping to solve California's problems, all generators in California, even those not subject to Commission price regulation, are required to sell into the ISO's real-time market as a condition of their use of the ISO's interstate transmission lines. Hydroelectric facilities are exempted because of their particular generation limitations.
- establish price mitigation, based on market-oriented principles, for available capacity in real time when there is a reserve deficiency.
- beginning June 1, 2001, require public utility load serving entities to establish demand response mechanisms in which they will identify the price at which load would be curtailed;
- establish a single market clearing price auction for the real-time market. Each gas-fired generator must file with the Commission and the ISO, on a confidential basis, heat and emission rates for each generating unit. The ISO will use these rates to calculate a marginal cost for each generator, including maintenance and operating costs. In the event a generator submits a bid higher than the proxy price,

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the generator must, within seven days of the end of each month, file a report with the Commission and the ISO justifying its price.

Price mitigation would be implemented when power reserves fall below 7.5 percent. The plan requires the ISO to set a market clearing auction for real-time markets. The plan calls for the ISO to file weekly reports with the Commission on scheduling, plant outages and bid data.

The ISO would calculate a marginal cost for each generator. When there is a power shortage, the ISO's market price will be limited to the marginal cost of the highest-cost generator called on to run. This will help reduce wholesale electricity prices in California during severe shortages.

Chairman Hébert said, "We are calling on all generators in the West to be part of the solution to the problem of high prices when supplies are short. I call on all generators—whether privately-owned or government-owned--not to fight this order but to cooperate in making it work."

To ensure that power suppliers do not engage in certain anticompetitive behavior, the Commission is placing conditions on public utility suppliers' authority to sell power at market-based rates. Price bids with certain unexplained characteristics are subject to Commission scrutiny and, if unjustified, are subject to refund.

The Commission will continue to monitor plant outages. It will also monitor real-time and forward prices for electric and gas markets and transmission prices.

To evaluate the effectiveness of the mitigation plan, the Commission directed the California ISO to submit a report on September 14, 2001, with quarterly reports following, that analyze the operation of the plan. There will be opportunity for public comments on these reports.

The Commission also seeks comment on whether the ISO should prospectively institute a surcharge on power sales to cover generators' past unpaid bills. Monies from the surcharge would be maintained in an escrow account. Comments are due in 30 days from this order's date.

The December order also set a \$150 per megawatt-hour (MWh) breakpoint under which sellers bidding above the breakpoint receive their bids, but are subject to

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monitoring and reporting requirements. The price mitigation plan for real-time and spot markets replaces the \$150 per MWh breakpoint established by the Commission in its December order 15 days after this order is issued.

The Commission also instituted an investigation into wholesale prices for electric sales by public utilities throughout the West. It also issued for comment a proposal that all non-hydroelectric generators in the West be subject to price mitigation during a power shortage.

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